

STANDARD REGISTER CO
Form 10-Q
July 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 28, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-01097

THE STANDARD REGISTER COMPANY

(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of
Incorporation or organization)

31-0455440
(I.R.S. Employer
Identification No.)

600 ALBANY STREET, DAYTON OHIO
(Address of principal executive offices)

45408
(Zip Code)

(937) 221-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of June 28, 2009 |
|---------------------------------|---------------------------------|
| Common stock, \$1.00 par value | 24,116,790 shares |
| Class A stock, \$1.00 par value | 4,725,000 shares |

THE STANDARD REGISTER COMPANY

FORM 10-Q

For the Quarter Ended June 28, 2009

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PART I - FINANCIAL INFORMATION
THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollars in thousands, except per share amounts)

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|-----------------------|-----------------|-----------------------|-----------------|
| | <i>June 28,</i> | <i>June 29,</i> | <i>June 28,</i> | <i>June 29,</i> |
| | <i>2009</i> | <i>2008</i> | <i>2009</i> | <i>2008</i> |
| REVENUE | \$ 171,015 | \$ 198,827 | \$ 345,635 | \$ 406,012 |
| COST OF SALES | 116,833 | 135,180 | 237,218 | 277,580 |
| GROSS MARGIN | 54,182 | 63,647 | 108,417 | 128,432 |
| OPERATING EXPENSES | | | | |
| Selling, general, and administrative | 48,270 | 61,490 | 100,057 | 121,051 |
| Pension curtailments and settlements | - | (746) | 19,747 | (746) |
| Asset impairments | 850 | - | 850 | 164 |
| Restructuring charges | (394) | (4) | 207 | 5 |
| Total operating expenses | 48,726 | 60,740 | 120,861 | 120,474 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 5,456 | 2,907 | (12,444) | 7,958 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | (333) | (523) | (636) | (1,284) |
| Other income | 209 | 47 | 257 | 129 |
| Total other expense | (124) | (476) | (379) | (1,155) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 5,332 | 2,431 | (12,823) | 6,803 |
| INCOME TAX EXPENSE (BENEFIT) | 2,158 | 1,041 | (5,021) | 2,919 |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | 3,174 | 1,390 | (7,802) | 3,884 |
| DISCONTINUED OPERATIONS | | | | |
| Gain on sale of discontinued operations, net of taxes | - | 2 | - | 4 |
| NET INCOME (LOSS) BASIC AND DILUTED INCOME | \$ 3,174 | \$ 1,392 | \$ (7,802) | \$ 3,888 |

(LOSS) PER SHARE

| | | | | |
|--|----------|----------|------------|----------|
| Income (loss) from continuing operations | \$ 0.11 | \$ 0.05 | \$ (0.27) | \$ 0.14 |
| Gain on sale of discontinued operations | - | - | - | - |
| Net income (loss) per share | \$ 0.11 | \$ 0.05 | \$ (0.27) | \$ 0.14 |
| Dividends declared per share | \$ 0.05 | \$ 0.23 | \$ 0.28 | \$ 0.46 |
| NET INCOME (LOSS) | \$ 3,174 | \$ 1,392 | \$ (7,802) | \$ 3,888 |
| Net actuarial loss reclassification, net of (\$1,457), (\$2,133), (\$8,111), and (\$4,266) deferred income tax benefit | 2,213 | 3,239 | 12,314 | 6,477 |
| Net prior service credit reclassification, net of \$398, \$610, \$795, and \$923 deferred income tax expense | (604) | (926) | (1,208) | (1,401) |
| Net actuarial gains (losses), net of \$1,578, (\$9,823) and \$1,578 deferred income tax benefit (expense) | - | (2,397) | 14,915 | (2,397) |
| COMPREHENSIVE INCOME | \$ 4,783 | \$ 1,308 | \$ 18,219 | \$ 6,567 |

See accompanying notes.

THE STANDARD REGISTER COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| A S S E T S | June 28, 2009 | December 28, 2008 |
|--|--------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 240 | \$ 282 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$1,889 and \$1,907 | 100,981 | 112,810 |
| Inventories | 34,938 | 38,718 |
| Deferred income taxes | 12,633 | 12,633 |
| Prepaid expense | 10,475 | 9,427 |
| Total current assets | 159,267 | 173,870 |
| PLANT AND EQUIPMENT | | |
| Land | 2,008 | 2,008 |
| Buildings and improvements | 64,286 | 63,942 |
| Machinery and equipment | 194,064 | 199,407 |
| Office equipment | 163,107 | 161,310 |
| Construction in progress | 5,519 | 2,794 |
| Total | 428,984 | 429,461 |
| Less accumulated depreciation | 334,359 | 327,802 |
| Plant and equipment, net | 94,625 | 101,659 |
| Net assets held for sale | 412 | 412 |
| Total plant and equipment, net | 95,037 | 102,071 |
| OTHER ASSETS | | |
| Goodwill | 6,557 | 6,557 |
| Intangible assets, net | 291 | 1,195 |
| Software development costs, net | 2,270 | 2,619 |

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| | | |
|--------------------|------------|------------|
| Deferred tax asset | 102,006 | 114,121 |
| Other | 13,974 | 12,944 |
| Total other assets | 125,098 | 137,436 |
| Total assets | \$ 379,402 | \$ 413,377 |

See accompanying notes.

THE STANDARD REGISTER COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| LIABILITIES AND SHAREHOLDERS' EQUITY | <i>June 28, 2009</i> | <i>December 28, 2008</i> |
|--|--------------------------|------------------------------|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 33,480 | \$ 159 |
| Accounts payable | 28,798 | 29,395 |
| Accrued compensation | 15,297 | 17,862 |
| Deferred revenue | 4,021 | 4,564 |
| Other current liabilities | 24,194 | 35,475 |
| Total current liabilities | 105,790 | 87,455 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | - | 33,840 |
| Pension benefit obligation | 200,098 | 235,457 |
| Retiree health care obligation | 7,652 | 8,063 |
| Deferred compensation | 7,272 | 8,362 |
| Other long-term liabilities | 5,798 | 5,231 |
| Total long-term liabilities | 220,820 | 290,953 |
| COMMITMENTS AND CONTINGENCIES - see Note 12 | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$1.00 par value: | | |
| Authorized 101,000,000 shares | | |
| Issued 26,107,521 and 26,044,229 shares | 26,107 | 26,044 |
| Class A stock, \$1.00 par value: | | |
| Authorized 9,450,000 shares | | |
| Issued - 4,725,000 | 4,725 | 4,725 |

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| | | |
|--|------------|------------|
| Capital in excess of par value | 62,258 | 61,304 |
| Accumulated other comprehensive losses | (144,423) | (170,519) |
| Retained earnings | 154,258 | 163,510 |
| Treasury stock at cost: | | |
| 1,990,731 and 1,982,874 shares | (50,133) | (50,095) |
| Total shareholders' equity | 52,792 | 34,969 |
| | | |
| Total liabilities and shareholders' equity | \$ 379,402 | \$ 413,377 |

See accompanying notes.

THE STANDARD REGISTER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

| | <i>26 Weeks Ended</i> <i>June 28,</i> <i>2009</i> | <i>26 Weeks Ended</i> <i>June 29,</i> <i>2008</i> |
|--|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net (loss) income | \$ (7,802) | \$ 3,888 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,420 | 13,402 |
| Restructuring charges | 207 | - |
| Asset impairments | 850 | 164 |
| Pension and postretirement benefit expense | 26,464 | 11,713 |
| Share-based compensation | 874 | 732 |
| Deferred tax expense (benefit) | (5,021) | 2,921 |
| Other | (591) | 757 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | 11,771 | 21,590 |
| Inventories | 3,780 | 4,791 |
| Restructuring spending | (2,864) | (395) |
| Accounts payable and accrued expenses | (5,010) | (5,336) |
| Pension and postretirement benefit obligations | (19,139) | (13,047) |
| Deferred compensation payments | (1,529) | (826) |
| Other assets and liabilities | (916) | (41) |
| Net cash provided by operating activities | 13,494 | 40,313 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to plant and equipment | (5,036) | (6,657) |
| Proceeds from sale of plant and equipment | - | 22 |
| Net cash used in investing activities | (5,036) | (6,635) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| | (378) | (16,988) |

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| | | |
|---|---------------|-----------------|
| Net change in borrowings under revolving credit facility | | |
| Principal payments on long-term debt | (159) | (21) |
| Proceeds from issuance of common stock | 143 | 186 |
| Dividends paid | (8,142) | (13,378) |
| Purchase of treasury stock | (38) | (60) |
| Net cash used in financing activities | (8,574) | (30,261) |
| Effect of exchange rate changes on cash | 74 | - |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (42) | 3,417 |
| Cash and cash equivalents at beginning of period | 282 | 697 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 240 | \$ 4,114 |

See accompanying notes.

THE STANDARD REGISTER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Standard Register Company and its wholly-owned subsidiaries (collectively, the Company) after elimination of intercompany transactions, profits, and balances. The consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 28, 2008 (Annual Report).

In our opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of trends or of results to be expected for a full year.

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

NOTE 2 RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

Effective December 29, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements. These new standards significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements.

SFAS 141(R), among other things, requires companies to recognize, with certain exceptions, all assets acquired and liabilities assumed and noncontrolling interests in acquisitions of less than a 100 percent controlling interest at their acquisition-date fair value; recognize contingent consideration at the acquisition-date fair value, with subsequent changes in fair value recorded in earnings; recognize preacquisition loss and gain contingencies at their acquisition-date fair values; capitalize in-process research and development acquired at fair value; expense, as incurred, acquisition-related transaction costs; generally expense acquisition-related restructuring costs; and recognize changes in existing income tax valuation allowances and tax uncertainty accruals that result from a business combination transaction as adjustments to income tax expense.

SFAS 160 establishes new accounting and reporting requirements for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The new standard requires that a noncontrolling interest in a consolidated subsidiary be recorded as a separate component of equity. Gains or losses are not recognized on sales; they are recorded as increases or decreases to paid-in-capital, unless there is a loss of control.

We have not entered into any business combination transactions during 2009; and therefore, the effect of implementing these standards will be dependent upon the nature and extent of future business combination transactions.

Effective December 29, 2008, we adopted the Financial Accounting Standards Board's (FASB) Staff Position on EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). Under the guidance of FSP EITF 03-6-1, unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, Earnings Per Share.

Although we do have unvested share-based awards that are considered participating securities, the adoption of FSP EITF 03-6-1 did not have a material effect on the computation of earnings per share.

As permitted, we elected to defer adoption of SFAS No. 157, Fair Value Measurements, until fiscal 2009 for nonfinancial assets and liabilities not currently recognized or disclosed at fair value on a recurring basis. Accordingly, we will apply the provisions of SFAS 157 to nonfinancial assets and liabilities, including goodwill, trademark intangible asset, and property and equipment that are reported at fair value as a result of impairment testing in 2009.

Effective for the quarterly period ended June 28, 2009, we adopted SFAS 165, Subsequent Events. The new standard provides guidance for the accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It also requires us to disclose the date through which subsequent events were evaluated and whether that date represents the date the financial statements were issued or were available to be issued. The adoption of this standard did not have a material effect on our consolidated results of operations, financial position, or cash flows.

Effective for the quarterly period ended June 28, 2009, we adopted the FASB's Staff Position on FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. The FSP amends SFAS 107 and APB 28 to require disclosures about the fair value of financial instruments for interim reporting periods in addition to annual financial statements. The adoption of this standard does not have a material effect on our consolidated results of operations, financial position, or cash flows.

In June 2009, the FASB approved the FASB Accounting Standards Codification (Codification) as the single source of authoritative nongovernmental U.S. GAAP. The Codification, which became available July 1, 2009, does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents were superseded and all other accounting literature not included in the Codification is considered nonauthoritative. The Codification will be effective for our quarterly reporting period ended September 27, 2009 and will not have a material effect on our consolidated results of operations, financial position, or cash flows. We are currently evaluating the impact to our financial reporting process of providing Codification references in our public filings.

In January 2009, the Securities and Exchange Commission (SEC) issued Release No. 33-9002, Interactive Data to Improve Financial Reporting. The final rule requires us to provide our financial statements and schedules to the SEC and our website in interactive data format using the eXtensible Business Reporting Language (XBRL). The rule was adopted to improve the ability of financial statement users to access and analyze financial data. The SEC adopted a phase-in schedule under which we will be required to submit filings using XBRL beginning with our quarterly report for the second quarter of 2011. Compliance with this rule will have no impact upon our consolidated results of operation, financial position, or cash flows.

NOTE 3 RESTRUCTURING CHARGES

The 2008 restructuring and other exit activities are described in Note 3 to the Consolidated Financial Statements included in our Annual Report. Restructuring and other exit costs of \$207 in the first half of 2009 primarily relate to \$751 for costs associated with the planned closing of facilities that are required to be expensed as incurred and a reversal of \$544 for lower than expected involuntary termination costs. All activities were completed as of the end of June 2009. All costs are included in restructuring and other exit costs in the accompanying Consolidated Statements of Income.

Our restructuring and cost reduction activities included production facility consolidations, sales reorganization, and general reductions in headcount. Under our new operating model, the majority of our manufacturing, warehousing, and distribution activities are managed under a shared-services model and are therefore not specific to a particular reportable segment. Additionally, we still maintain certain other corporate functions that also are not attributable to a specific reportable segment. As a result, none of our restructuring or exit activities are reported under any segment, and are all attributable to corporate and other shared services.

Pre-tax components of 2008 restructuring and other exit costs consist of the following:

| <i>Total Expected Costs</i> | <i>Total Q2 2009 Expense</i> | <i>Cumulative- To-Date Expense</i> |
|-------------------------------------|--------------------------------------|--|
|-------------------------------------|--------------------------------------|--|

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|-------------------------------|----|--------------|----|-------|----|-------|
| Involuntary termination costs | \$ | 3,800 | \$ | (453) | \$ | 3,787 |
| Contract termination costs | | 1,450 | | 35 | | 1,214 |
| Other associated exit costs | | 800 | | 24 | | 796 |
| Total | \$ | 6,050 | \$ | (394) | \$ | 5,797 |

A summary of the 2008 restructuring accrual activity is as follows:

| | <i>Balance 2008</i> | <i>Charged to Accrual</i> | <i>Reversed in 2009</i> | <i>Incurred in 2009</i> | <i>Balance 2009</i> |
|-------------------------------|-------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------|
| Involuntary termination costs | \$ 3,206 | \$ 8 | \$ (544) | \$ (2,040) | \$ 630 |
| Contract termination costs | 517 | 319 | - | (400) | 436 |
| Total | \$ 3,723 | \$ 327 | \$ (544) | \$ (2,440) | \$ 1,066 |

NOTE 4 INVENTORIES

Inventories consist of the following:

| | <i>June 28, 2009</i> | <i>December 28, 2008</i> |
|------------------------|--------------------------|------------------------------|
| Finished Products | \$ 31,647 | \$ 33,994 |
| Jobs In Process | 791 | 1,228 |
| Materials and Supplies | 2,500 | 3,496 |
| Total | \$ 34,938 | \$ 38,718 |

NOTE 5 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We are required to use valuation techniques that are consistent with the market approach, income approach, and/or cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources, or unobservable, meaning those that reflect our own estimate about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3 Unobservable inputs that reflect our own assumptions that are not corroborated by market data

The following table summarizes our assets measured at fair value on a nonrecurring basis:

| Description of Asset | Balance at June 28, 2009 | Level 1 | Level 2 | Level 3 | Total loss Incurred |
|-------------------------|-----------------------------|---------|---------|---------|------------------------|
|-------------------------|-----------------------------|---------|---------|---------|------------------------|

| | | | | | | | | | | |
|-----------|----|-----|----|---|----|---|----|-----|----|-------|
| Trademark | \$ | 150 | \$ | - | \$ | - | \$ | 150 | \$ | (850) |
|-----------|----|-----|----|---|----|---|----|-----|----|-------|

Intangible Assets - We hold a trademark valued at \$1,000 related to the acquisition of Planet Print in 2002. The trademark is associated with our consulting and print-asset optimization product line, which is part of our shared services organization. In the second quarter of 2009, we received an offer to purchase certain assets related to this product line which indicated the value of the assets should be evaluated for impairment. Accordingly, we performed an evaluation of the recoverability of the trademark value; an annual test that was otherwise scheduled for the fourth quarter of 2009. The impairment test required us to compare the fair value of the trademark with its carrying amount.

To determine fair value, we considered the cost, market, and income approaches. We determined that the cost method would not yield a representative value at which market participants would transact and that observable market data was not available without undue cost; therefore, these methods were not utilized. Our evaluation followed an income approach that utilized a discounted future cash flow analyses. Inherent in our fair value determinations are certain judgments and estimates relating to future cash flows, including interpretation of current economic indicators and market conditions, overall economic conditions, and our strategic operational plans. In connection with preparing the impairment assessment, our change in strategic direction and investment caused a deterioration in the expected future financial performance of the product line compared to the expected future financial performance at the end of fiscal 2008. Based on the results of our evaluation, we recorded a non-cash impairment charge to write down the trademark by \$850, which is included in Asset Impairments in the accompanying Consolidated Statements of Income.

With the income approach, cash flows that are anticipated over several years, plus a terminal value at the end of that period, are discounted to their present value using an estimated weighted-average cost of capital. The most critical inputs used were the revenue and cost assumptions, the terminal value assumed, and the discount rate applied. We determined that these inputs were unobservable Level 3 inputs; therefore, the reporting unit fair value measurement was deemed a Level 3 measurement. The following describes the significant inputs utilized in our fair value calculations and the information used to develop the inputs:

- Revenue and cost assumptions:* We reviewed all existing customer contracts and the existing pipeline of new opportunities for the applicable product lines. We projected future unidentified customer opportunities using existing pricing practices and sale productivity trends. The customer data was then used to project future revenue over the next 5 years.

We reviewed historical cost and investment performance, classifying costs into fixed and variable categories and then projected the incremental costs and investments needed to match the revenue projections.

A terminal value was then applied to the cash flow stream based on the year five cash flow. We calculated three outcomes: a most likely, a best case, and a worst case. In addition, we calculated a fourth outcome that considered market data included in the purchase offer to determine the terminal value. All outcomes were weighted to arrive at an overall projected cash flow, with the most probability assigned to the fourth outcome.

- Discount rate:* We used a weighted-average cost of capital that assumed a mix of debt and equity consistent with our current financing structure and investor / lender expectations.

Other fair value disclosures - We have financial assets and liabilities that are not recorded at fair value but which require disclosure of their fair value. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these instruments and is not material. We believe the carrying amount of our long-term debt approximates fair value as the interest rates are generally variable based on market interest rates and reflect current market rates available to us.

NOTE 6 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | <i>June 28, 2009</i> | <i>December 28, 2008</i> |
|---|--------------------------|------------------------------|
| Non-income taxes | \$ 5,283 | \$ 5,541 |
| Dividends payable | - | 6,696 |
| Current portion of pension and postretirement obligations | 4,416 | 4,482 |
| Restructuring and other exit costs | 1,066 | 3,723 |
| Other current liabilities | 13,429 | 15,033 |
| Total | \$ 24,194 | \$ 35,475 |

NOTE 7 EARNINGS PER SHARE

The number of shares outstanding for calculation of earnings per share (EPS) is as follows:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <i>June 28,</i> <i>2009</i> | <i>June 29,</i> <i>2008</i> | <i>June 28,</i> <i>2009</i> | <i>June 29,</i> <i>2008</i> |
| (Shares in thousands) | | | | |
| Weighted average shares outstanding - basic | 28,833 | 28,754 | 28,816 | 28,745 |
| Effect of potentially dilutive securities | 1 | 19 | - | 14 |
| Weighted average shares outstanding - diluted | 28,834 | 28,773 | 28,816 | 28,759 |

The effects of stock options and nonvested shares on diluted EPS are reflected through the application of the treasury stock method. Due to the loss from continuing operations for the 26-week period ending June 28, 2009, no outstanding options or nonvested shares were included in the diluted EPS computation because they would automatically result in anti-dilution. No outstanding options were included in the computation of diluted EPS for the 13-week periods ended June 29, 2008 and June 28, 2009 and the 26-week period ended June 29, 2008 because the exercise price of the options were greater than the average market price at the end of the period; therefore, the effect would be anti-dilutive.

NOTE 8 SHARE BASED COMPENSATION

Total share-based compensation expense by type of award is as follows:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>June 28, 2009</i> | <i>June 29, 2008</i> | <i>June 28, 2009</i> | <i>June 29, 2008</i> |
| Nonvested stock awards, service based | \$ 103 | \$ 97 | \$ 233 | \$ 146 |
| Nonvested stock awards, performance based | 10 | 204 | 10 | 272 |
| Stock options | 305 | 210 | 640 | 314 |
| Total share-based compensation expense | 418 | 511 | 883 | 732 |
| Income tax benefit | 166 | 203 | 351 | 290 |
| Net expense | \$ 252 | \$ 308 | \$ 532 | \$ 442 |

Expense for nonvested performance based stock awards represents dividends paid on awards that are not expected to vest.

Stock Options

The weighted-average fair value of stock options granted in 2009 was estimated at \$1.91 per share, using the Black-Scholes option-pricing model. Expense is being amortized on a straight-line basis over the vesting period, generally 4 years. The weighted-average of significant assumptions used to estimate the fair value of options granted is as follows:

| | <i>2009</i> |
|-------------------------|-------------|
| Risk-free interest rate | 1.6% |
| Dividend yield | 4.8% |
| Expected term | 4 years |
| Expected volatility | 66.5% |

A summary of our stock option activity and related information for 2009 is as follows:

| | <i>Number of Shares</i> | <i>Weighted-Average Exercise Price</i> |
|----------------------------------|-----------------------------|--|
| Outstanding at December 28, 2008 | 1,763,771 | \$ 16.07 |

| | | | |
|------------------------------|------------------|----|--------------|
| Granted | 905,900 | | 4.99 |
| Exercised | - | | - |
| Forfeited/Canceled | (342,501) | | 17.66 |
| Outstanding at June 28, 2009 | 2,327,170 | \$ | 11.52 |
| Exercisable at June 28, 2009 | 1,146,562 | \$ | 16.51 |

Service-Based Stock Awards

The fair value of the service-based stock awards granted in 2009 was based on the closing market price of our common stock on the date of award and is being amortized to expense on a straight-line basis over a vesting period of 4 years. A summary of our service-based stock award activity and related information for 2009 is as follows:

| | <i>Number of Shares</i> | <i>Weighted-Average Fair Value</i> |
|--------------------------------|-----------------------------|--|
| Nonvested at December 28, 2008 | 104,822 | \$ 11.33 |
| Granted | 75,670 | 5.22 |
| Vested | (33,837) | 12.19 |
| Forfeited/Canceled | (800) | 11.79 |
| Nonvested at June 28, 2009 | 145,855 | \$ 7.96 |

NOTE 9 PENSION PLANS

Net periodic benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>June 28, 2009</i> | <i>June 29, 2008</i> | <i>June 28, 2009</i> | <i>June 29, 2008</i> |
| Service cost of benefits earned | \$ 31 | \$ 1,667 | \$ 63 | \$ 3,334 |
| Interest cost on projected benefit obligation | 6,522 | 7,006 | 13,000 | 14,012 |
| Expected return on plan assets | (6,266) | (7,321) | (13,037) | (14,642) |
| Amortization of prior service costs | 148 | 95 | 296 | 190 |
| Amortization of net actuarial loss from prior periods | 3,546 | 5,209 | 8,203 | 10,419 |
| Curtailment gain | - | (746) | - | (746) |
| Settlement loss | - | - | 19,747 | - |
| Total | \$ 3,981 | \$ 5,910 | \$ 28,272 | \$ 12,567 |

As a result of associates retiring in 2009 and electing a lump-sum payment of their pension benefits under our qualified, non-qualified and supplemental executive retirement plans, we recognized settlement losses in the first quarter of 2009. A pension settlement is recorded when the total lump sum payments for a year exceed total service and interest costs to be recognized for that year. As part of the settlement, we recognized a pro-rata portion of the unrecognized net losses included in accumulated other comprehensive losses equal to the percentage reduction in the pension benefit obligation. These non-cash charges are included in net periodic benefit cost.

As part of the settlement, we remeasured our pension obligations and plan assets under these plans as of March 1, 2009, the settlement date. The remeasurement resulted in an actuarial gain of \$52,797, primarily for a change in the discount rate used to measure the benefit obligations from 5.75% at December 28, 2008 to 7.0% at March 1, 2009. Additionally, we updated the fair value of our plan assets and recognized a net actuarial loss of \$28,059 due to the actual rate of investment return on the plans being less than the expected rate of return. As a result, we realized a net actuarial gain of \$24,738 which will be amortized into income in future years. This net gain reduced our pension liabilities by \$24,738, reduced accumulated other comprehensive losses by \$14,915, and decreased our deferred tax assets by \$9,823.

Final regulations under the Pension Protection Act of 2006 regarding the calculations of our minimum funding requirement have not been released, therefore our required mandatory pension funding requirement for 2009 is not known at this time. Based upon preliminary estimates, we expect to contribute approximately \$25 million for 2009, of which \$14,500 of contributions were made in the first half of 2009.

NOTE 10 POSTRETIREMENT BENEFIT PLANS

Net postretirement benefit cost includes the following components:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>June 28, 2009</i> | <i>June 29, 2008</i> | <i>June 28, 2009</i> | <i>June 29, 2008</i> |
| Interest cost | 121 | 295 | 242 | 590 |
| Amortization of prior service cost | (1,150) | (884) | (2,299) | (1,768) |
| Amortization of net actuarial loss from prior periods | 124 | 162 | 247 | 324 |
| Total | \$ (905) | \$ (427) | \$ (1,810) | \$ (854) |

The funding policy is to pay claims as they occur. As of June 28, 2009, we paid \$653 to cover claims under our postretirement medical plan and currently expect to pay an additional \$700 to cover benefit claims during the remainder of 2009.

NOTE 11 SEGMENT REPORTING

In 2009, we organized our operating businesses into three Business Units based upon their customer base and the primary vertical markets they serve. As a result, our new reportable segments are primarily market focused as opposed to our previous reporting segments that were product-based. Pursuant to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we re-evaluated our reportable segments based upon the new management structure, our internal reporting, and how our chief executive officer and other chief decision makers evaluate performance and allocate resources. We sell most of our products and services across all of our Business Units; therefore, our new reportable segments are not based upon any aggregation of the previously reported segments. Segment information for 2008 has been revised from previously reported information to reflect the current presentation. A description of the new reportable segments is provided below.

Commercial

The Commercial segment serves the business-to-business market with concentrations in insurance, banking, service providers, transportation, retail, government agencies, and utilities. The main product offerings include: document management services; training solutions; secure document solutions; document outsourcing such as statements, billing, and customer notices; and other printed products. This segment also provides software products and related professional services.

Healthcare

The Healthcare segment's primary customers include acute care hospitals, integrated delivery networks, long-term care providers, and managed care organizations. Products provided include: document management services; clinical forms; document workflow solutions; wristbands, labels; secure prescription programs; and other print and electronic solutions.

Industrial

The Industrial segment's primary customers include manufacturing companies that produce industrial and commercial machinery, transportation equipment, HVAC, electrical distribution products, and appliance and medical equipment.

This segment provides design, sourcing, and inventory management for decorative and functional printed production parts. Printed production parts include all of the labels and technical literature associated with a manufactured product.

In addition to these products, a wide array of traditional print products and document management services is also provided.

Under our new operating model, the majority of our manufacturing, printing, warehousing, and distribution functions are managed under a shared-services model and are therefore not specific to a particular reportable segment. Each Business Unit is supported by our shared-services comprised of manufacturing, supply chain, and client satisfaction, as well as finance, technology, and other corporate functions.

Production costs of our manufacturing and supply chain shared-services functions are accumulated on a customer basis and reported in the applicable Business Unit's cost of sales. Our Business Units incur a portion of selling, general and administrative expense directly. In the second quarter of 2009, we revised our methods of allocating certain SG&A expenses. Each Business Unit also receives an allocation of SG&A expense as follows:

•

Each Business Unit has its own sales regions. Selling expense incurred by each sales region is allocated to other Business Units based on the percentage of revenue generated for the other Business Unit. Expense associated with our client satisfaction function previously was allocated to Business Units in proportion to their share of consolidated revenue. We now use an activity-based method of allocating this expense.

•

Finance, technology, and other corporate general and administrative expenses previously were allocated based on the Business Unit's budgeted revenue as a percentage of budgeted consolidated revenue. Expense is now allocated based on the Business Unit's actual revenue as a percentage of actual consolidated revenue.

•

General and administrative expense of our remaining shared-services is allocated based on a percentage of actual revenue.

We also revised previously reported segment results for a reclassification of a few customers between markets. The following table presents our segment results for the 13-week periods ended March 29, 2009 and March 30, 2008 as originally reported.

| | | <i>Commercial</i> | <i>Healthcare</i> | <i>Industrial</i> | <i>Total</i> |
|---------------------------------|-------------|-------------------|-------------------|-------------------|-------------------|
| Revenue from external customers | 2009 | \$ 97,536 | \$ 62,886 | \$ 14,198 | \$ 174,620 |
| | 2008 | 117,368 | 68,247 | 21,570 | 207,185 |
| Operating income | 2009 | \$ 1,385 | \$ 6,489 | \$ (917) | \$ 6,957 |
| | 2008 | 2,248 | 7,403 | 305 | 9,956 |

The following table presents our segment results for the 13-week periods ended March 29, 2009 and March 30, 2008 as revised.

| | | <i>Commercial</i> | <i>Healthcare</i> | <i>Industrial</i> | <i>Total</i> |
|--|-------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | \$ 92,386 | \$ 68,415 | \$ 13,819 | \$ 174,620 |

Revenue from external customers

| | | | | | |
|------------------|-------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 | 112,346 | 73,445 | 21,394 | 207,185 |
| Operating income | 2009 | \$ 2,355 | \$ 5,489 | \$ (887) | \$ 6,957 |
| | 2008 | 3,063 | 6,789 | 104 | 9,956 |

The profitability measure we use to assess segment performance is segment operating income before restructuring and impairment, and excludes items listed in the reconciliation below that are not allocated to segment operating income.

Information about our operations by segment for the 13-week periods ended June 28, 2009 and June 29, 2008 is as follows:

| | | <i>Commercial</i> | <i>Healthcare</i> | <i>Industrial</i> | <i>Total</i> |
|---------------------------------|-------------|-------------------|-------------------|-------------------|-------------------|
| Revenue from external customers | 2009 | \$ 88,665 | \$ 66,165 | \$ 16,185 | \$ 171,015 |
| | 2008 | 107,555 | 69,995 | 21,277 | 198,827 |
| Operating income | 2009 | \$ 1,478 | \$ 7,078 | \$ 314 | \$ 8,870 |
| | 2008 | 2,274 | 4,024 | 618 | 6,916 |

Information about our operations by segment for the 26-week periods ended June 28, 2009 and June 29, 2008 is as follows:

| | | <i>Commercial</i> | <i>Healthcare</i> | <i>Industrial</i> | <i>Total</i> |
|---------------------------------|-------------|-------------------|-------------------|-------------------|-------------------|
| Revenue from external customers | 2009 | \$ 181,051 | \$ 134,580 | \$ 30,004 | \$ 345,635 |
| | 2008 | 219,901 | 143,440 | 42,671 | 406,012 |
| Operating income | 2009 | \$ 3,833 | \$ 12,567 | \$ (573) | \$ 15,827 |
| | 2008 | 5,337 | 10,813 | 722 | 16,872 |

Reconciling information between reportable segments and our consolidated financial statements is as follows:

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>June 28, 2009</i> | <i>June 29, 2008</i> | <i>June 28, 2009</i> | <i>June 29, 2008</i> |
| Segment operating income | \$ 8,870 | \$ 6,916 | \$ 15,827 | \$ 16,872 |
| Restructuring and asset impairment | (456) | 4 | (1,057) | (169) |
| Amortization of prior period pension losses | (3,546) | (5,209) | (8,203) | (10,419) |
| Pension curtailment and settlement | - | 746 | (19,747) | 746 |
| Other unallocated pension | (256) | 315 | 37 | 630 |
| Other unallocated | 19 | 237 | 12 | 137 |
| LIFO | 825 | (102) | 687 | 161 |
| Total other expense, primarily interest | (124) | (476) | (379) | (1,155) |
| Income from continuing operations before income taxes | \$ 5,332 | \$ 2,431 | \$ (12,823) | \$ 6,803 |

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Company has participated with other Potentially Responsible Parties (PRPs) in the investigation, study, and remediation of the Pasco Sanitary Landfill Superfund Site (the Pasco Site) in eastern Washington State since 1998. The Company is a member of a PRP Group known as the Industrial Waste Area Generators Group II (the IWAG Group). In 2000, the IWAG Group and several other PRP groups entered into agreed orders with the Department of Ecology for implementation of interim remedial actions and expansion of groundwater monitoring. The Department has recently required the PRP groups to implement additional interim actions and delay implementation of a final remedy. This regulatory development has caused an increase in the projected expenses associated with the Pasco Site through the interim and final remedy stages. We have accrued our best estimate of our obligation and have an undiscounted liability of \$1,900 that we currently believe is adequate to cover our portion of the total future potential costs of remediation. Depending on the results of future environmental testing and the final remedy agreed upon, it is possible that our estimate could change in the future.

In addition, we have undiscounted reserves totaling \$634 for environmental remediation at one previously owned facility and one currently owned facility. Our remediation costs for one of these facilities are partially covered by our insurance provider, and we have recorded a receivable of \$192 for the portion of the costs we expect to recover.

In 1994, the Company was notified that it was a PRP for conditions at the Valleycrest Landfill site in Dayton, Ohio and in 1995, entered into a Site Participation Agreement with other PRPs. In 2003, one of the other PRPs stepped into the Company's position under the Site Participation Agreement and in return for payment, agreed to indemnify the Company against certain future liability in connection with the Valleycrest Landfill Site. Therefore, we did not previously record a liability for potential remediation costs.

We were recently notified that in connection with that PRP's recent bankruptcy filing, it does not plan to continue contributions to the site, including that portion of its contributions related to its contractual obligation to indemnify the Company for future liability. However, at this time we do not have sufficient information to determine the amount or the range of potential loss related to our share of the total remediation costs. We will record a liability for expenses associated with this environmental remediation obligation when such amount can be reasonably estimated.

NOTE 13 SUBSEQUENT EVENT

The Company has evaluated for disclosure all subsequent events occurring through July 29, 2009, the date the financial statements were issued and filed with the United States Securities and Exchange Commission.

Item 2 -

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Dollars in Millions, Except Per Share Amounts*)

FORWARD-LOOKING INFORMATION

This report includes forward-looking statements covered by the Private Securities Litigation Reform Act of 1995. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. All statements regarding our expected future financial condition, revenues or revenue growth, projected costs or cost savings, cash flows and future cash obligations, dividends, capital expenditures, business strategy, competitive positions, growth opportunities for existing products or products under development, and objectives of management are forward-looking statements that involve certain risks and uncertainties. In addition, forward-looking statements include statements in which we use words such as anticipates, projects, expects, plans, intends, believes, estimates, targets, and other similar expressions that indicate future events. These forward-looking statements are based on current expectations and estimates; we cannot assure you that such expectations will prove to be correct. The Company undertakes no obligation to update forward-looking statements as a result of new information, since these statements may no longer be accurate or timely.

Because such statements deal with future events, actual results for fiscal year 2009 and beyond could differ materially from our current expectations depending on a variety of factors including, but not limited to, the risk factors discussed in Item 1A to Part I of the Company's Annual Report on Form 10-K for the year ended December 28, 2008 (Annual Report). You should read this Management Discussion and Analysis in conjunction with those risk factors and the financial statements and related notes included in this Quarterly Report on Form 10-Q (Quarterly Report) and included in our Annual Report. This Management's Discussion and Analysis includes the following sections:

•

Critical Accounting Policies and Estimates An update on the discussion provided in our Annual Report of the accounting policies that require our most critical judgments and estimates.

•

Executive Summary An overall discussion of changes in our business and key financial results for the second quarter and first half of 2009.

•

Results of Operations An analysis of our consolidated results of operations and segment results for the second quarter and first half of 2009 and 2008.

•

Liquidity and Capital Resources An analysis of cash flows and discussion of our financial condition.

CRITICAL ACCOUNTING POLICIES

In preparing the accompanying unaudited financial statements and accounting for the underlying transactions and balances, we applied the accounting policies disclosed in the Notes to the Consolidated Financial Statements contained in our Annual Report. Preparation of these unaudited financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although we believe our estimates and assumptions are reasonable, they are based on information presently available and actual results may differ significantly from those estimates.

We believe that some of the more critical estimates and related assumptions are in the areas of pension benefits, fair value measurements, deferred taxes, inventories, contingent liabilities, revenue recognition, and share-based compensation. For a detailed discussion of these critical accounting estimates, see the Management Discussion and Analysis included in our Annual Report. There were no significant changes in these critical accounting policies and estimates during 2009.

We have discussed the development and selection of the critical accounting policies and the related disclosures included in this Quarterly Report with the Audit Committee of our Board of Directors.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We are required to use valuation techniques that are consistent with the market approach, income approach, and/or cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources, or unobservable, meaning those that reflect our own estimate about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3 Unobservable inputs that reflect our own assumptions that are not corroborated by market data

Goodwill - During the second quarter of 2009, we performed the annual impairment test for goodwill. The test was performed at the reporting unit level using the two-step approach required by generally accepted accounting principles. For purposes of this test, the reporting unit evaluated was our POD Services business, which was one level below our Commercial, Healthcare, and Industrial operating segments.

The first step of the test required us to compare the fair value of the reporting unit to the carrying value of the assets assigned to that reporting unit, including goodwill. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed.

To determine fair value, we considered the cost, market, and income approaches. We determined that the cost method would not yield a representative value at which market participants would transact, so this method was not utilized. We followed an income approach utilizing a discounted future cash flow analyses and a market-based approach based on a multiple of EBITDA. Our determination of the fair value of goodwill was based on the discounted future cash flow analysis since that resulted in the highest fair value. As a result, we determined that the fair value of the reporting unit was greater than its carrying value; therefore, goodwill was not impaired.

With the income approach, cash flows that are anticipated over several years, plus a terminal value at the end of that period, are discounted to their present value using an estimated weighted-average cost of capital. The most critical inputs used were the revenue and cost assumptions, the terminal value assumed, and the discount rate applied. We determined that these inputs were unobservable Level 3 inputs; therefore, the reporting unit fair value measurement was deemed a Level 3 measurement. The following describes the information used to develop the inputs used in our

fair value calculations:

-

Revenue and cost assumptions: Using historical trending and internal forecasting techniques, we projected revenue for the remainder of 2009 through 2013. We then applied our fixed and variable cost experience rates to the projected revenue to arrive at the future cash flow through 2013. A terminal value was then applied to the projected cash flow stream based on the year five cash flow.

We calculated three outcomes: a most likely, a best case, and a worst case based on future cash flow projections. All outcomes were weighted to arrive at an overall projected cash flow.

-

Discount rate determination: We used a weighted-average cost of capital that assumed a mix of debt and equity consistent with our current financing structure and investor / lender expectations.

In addition to calculating a range of possible outcomes, we also performed a sensitivity analysis designed to understand the relative impact of the major assumptions used in our calculations. If our estimate of expected future cash flows had been 10% lower, or there was a 10% variation in either the terminal value or the discount rate, the expected future cash flows would still have exceeded the carrying value of the assets, including goodwill.

Intangible Assets - We hold a trademark valued at \$1.0 million related to the acquisition of Planet Print in 2002. The trademark is associated with our consulting and print-asset optimization product line, which is part of our shared services organization. In the second quarter of 2009, we received an offer to purchase certain assets related to this product line which indicated the value of the assets should be evaluated for impairment. Accordingly, we performed an evaluation of the recoverability of the trademark value; an annual test that was otherwise scheduled for the fourth quarter of 2009. The impairment test required us to compare the fair value of the trademark with its carrying amount.

To determine fair value, we considered the cost, market, and income approaches. We determined that the cost method would not yield a representative value at which market participants would transact and that observable market data was not available without undue cost; therefore, these methods were not utilized. Our evaluation followed an income approach that utilized a discounted future cash flow analyses. Inherent in our fair value determinations are certain judgments and estimates relating to future cash flows, including interpretation of current economic indicators and market conditions, overall economic conditions, and our strategic operational plans. In connection with preparing the impairment assessment, our change in strategic direction and investment caused a deterioration in the expected future financial performance of the product line compared to the expected future financial performance at the end of fiscal 2008. Based on the results of our evaluation, we recorded a non-cash impairment charge to write down the trademark by \$0.9 million, which is included in Asset Impairments in the accompanying Consolidated Statements of Income.

With the income approach, cash flows that are anticipated over several years, plus a terminal value at the end of that period, are discounted to their present value using an estimated weighted-average cost of capital. The most critical inputs used were the revenue and cost assumptions, the terminal value assumed, and the discount rate applied. We determined that these inputs were unobservable Level 3 inputs; therefore, the reporting unit fair value measurement was deemed a Level 3 measurement. The following describes the significant inputs utilized in our fair value calculations and the information used to develop the inputs:

-

Revenue and cost assumptions: We reviewed all existing customer contracts and the existing pipeline of new opportunities for the applicable product lines. We projected future unidentified customer opportunities using existing pricing practices and sale productivity trends. The customer data was then used to project future revenue over the next 5 years.

We reviewed historical cost and investment performance, classifying costs into fixed and variable categories and then projected the incremental costs and investments needed to match the revenue projections.

A terminal value was then applied to the projected cash flow stream based on the year five cash flow. We calculated three outcomes: a most likely, a best case, and a worst case. In addition, we calculated a fourth outcome that considered market data included in the purchase offer to determine the terminal value. All outcomes were weighted to arrive at an overall projected cash flow, with the most probability assigned to the fourth outcome.

-

Discount rate: We used a weighted-average cost of capital that assumed a mix of debt and equity consistent with our current financing structure and investor / lender expectations.

In addition to calculating a range of possible outcomes, we also performed a sensitivity analysis designed to understand the relative impact of the major assumptions used in our calculations. If our estimate of expected future

cash flows had been 10% lower, or there was a 10% variation in either the terminal value or the discount rate, the change in assumptions would have only a minor effect on the impairment amount.

Software Development Costs We also performed an evaluation of the recoverability of the software development costs associated with the print-asset optimization software. We evaluated the held for sale criteria and determined the asset should be classified as held and used; therefore, the impairment test was performed on this basis. Since the carrying value of the asset did not exceed the value of the undiscounted expected future cash flows to be generated by the asset, no further impairment charges were recorded.

The most critical estimates used in determining the expected cash flows were the assumption of future revenue to be generated by sales of the software and the terminal value. If our estimate of expected future cash flows had been 10% lower, or if either of these two assumptions changed by 10%, the expected future cash flows would still have exceeded the carrying value of the assets.

The use of different estimates and assumptions could materially affect the determination of fair value used in any of our impairment tests. If we change our estimates and assumptions in the future based on changes in our overall business, underperformance against projected future operating results, or significant negative economic trends, such changes may result in an impairment charge.

EXECUTIVE SUMMARY

Throughout the fourth quarter of 2008 and the first half of 2009, we have been transforming our organizational structure to align around our new vertical market strategy. We have aligned management roles and resources to create an intense focus on customer needs within our three primary markets: Commercial, Healthcare, and Industrial. We have also been aligning our manufacturing, supply chain, client satisfaction, information technology, human resource, legal, and finance functions into a shared-services model in order to provide better support and service to our customers and create cost efficiencies. Substantially all of these actions were completed by the end of the second quarter of 2009.

Our business continued to be negatively impacted by the downturn in the economy throughout the first half of 2009, which resulted in lower sales volume with our existing base of customers and pressures on pricing. As expected, the continued adoption of digital and non-print related technologies by our customers has also negatively impacted sales volume. However, the rate of decline in the second quarter was lower than in the first quarter. We attribute this improvement to a more focused sales strategy which has enabled us to expand our customer base and increase sales on some growth-targeted products and a slight improvement in economic conditions within the manufacturing industry. Additionally, despite the decline in revenue, our relentless pursuit of cost reduction and focus on creating operating efficiencies has allowed us to maintain stable margins during this time.

The following summarizes some of the key financial results for the first half of 2009:

-

During 2009, a large number of employees elected to retire and receive lump sum payments from their pension plans. As a result, we recorded non-cash pension settlement charges in the amount of \$19.7 million. These charges are discussed in more detail under Pension curtailments and settlements within the Results of Operations discussion.

-

For the second quarter, net income was \$3.2 million compared to \$1.4 million in 2008. Combined with the net loss of \$11.0 million in the first quarter 2009, the year-to-date net loss was \$7.8 million, or (\$0.27) per share compared to net income of \$3.9 million, or \$0.14 per share in the first half of 2008. On a per share basis, the pension settlement represented a loss of (\$0.41) per share.

-

Cash flow on a net debt basis was \$0.4 million compared to \$20.4 million in the first half of 2008. However, cash flow in the second quarter improved to a positive \$7.8 million, up from a negative \$7.4 million in the first quarter.

-

Net debt in the first half of 2009 decreased by \$0.5 million from year-end 2008.

RESULTS OF OPERATIONS

The discussion that follows provides information which we believe is relevant to an understanding of our consolidated results of operations and financial condition, supplemented by a discussion of segment results where appropriate.

This discussion focuses on year-to-date results, with discussion of material items specific to the quarter as needed.

| | <i>13 Weeks Ended</i> | | | <i>26 Weeks Ended</i> | | |
|--|-----------------------|-----------------|-----------------|-----------------------|-----------------|-----------------|
| | <i>June 28,</i> | <i>June 29,</i> | <i>% Change</i> | <i>June 28,</i> | <i>June 29,</i> | <i>% Change</i> |
| | <i>2009</i> | <i>2008</i> | | <i>2009</i> | <i>2008</i> | |
| Revenue | \$ 171.0 | \$ 198.8 | -14% | \$ 345.6 | \$ 406.0 | -15% |
| Cost of sales | 116.8 | 135.2 | -14% | 237.2 | 277.6 | -15% |
| Gross margin | 54.2 | 63.6 | -15% | 108.4 | 128.4 | -16% |
| <i>Gross margin % of sales</i> | <i>31.7%</i> | <i>32.0%</i> | | <i>31.4%</i> | <i>31.6%</i> | |
| SG&A expense | 48.2 | 61.5 | -22% | 100.0 | 121.0 | -17% |
| Pension curtailments and settlements | - | (0.7) | | 19.7 | (0.7) | |
| Restructuring and asset impairment | 0.5 | - | | 1.1 | 0.2 | |
| Other expense, net | 0.1 | 0.4 | | 0.4 | 1.1 | |
| Income (loss) from continuing operations before taxes | 5.4 | 2.4 | | (12.8) | 6.8 | |
| Income tax expense (benefit) | 2.2 | 1.0 | | (5.0) | 2.9 | |
| <i>% rate</i> | <i>40.5%</i> | <i>42.8%</i> | | <i>39.2%</i> | <i>42.9%</i> | |
| Income (loss) from continuing operations | \$ 3.2 | \$ 1.4 | | \$ (7.8) | \$ 3.9 | |

Revenue

On a year-to-date basis, revenue for 2009 was down \$60.4 million or 15% compared to 2008. We estimate that approximately 45% of the overall revenue decline is a result of the downturn in the economy that began in 2008 and has continued through 2009. Declining consumer demand has negatively impacted our existing base of customers which has led to a decrease in order levels for many of our products. Additionally, we estimate that close to 15% of our overall revenue decline resulted from the continued advancement of digital technologies. These external factors have contributed to declines in both units and pricing.

The following table details the estimated changes in revenue due to units and price for both the second quarter and the first half of 2009. Changes in product mix did not materially contribute to the change in revenue.

| | <i>% of Revenue Change</i> | |
|--------------|----------------------------|---------------------|
| | <i>Quarter</i> | <i>Year-to-Date</i> |
| Units | -15% | -16% |
| Price | 1% | 1% |
| | -14% | -15% |

The unit decline in the second quarter was lower than in the first quarter of 2009 as a result of expansions in our customer base, increased sales in some of our growth-targeted products, and slightly improving economic conditions within the manufacturing industry. Pricing on the supply side has stabilized during 2009; however, price pressures from our customers continued to intensify as they focused on cost reductions. Therefore, the increase in pricing related to the pass-through of our material costs was almost completely offset by pricing concessions.

Cost of Sales/Gross Margin

Cost of sales decreased \$40.4 million or 15% during the first half of 2009. Unit declines reduced costs by approximately 14%. Our workforce reduction and the successful execution of cost reduction initiatives implemented in 2007 and 2008 reduced overall costs by an additional 3%. The major categories of cost reductions included compensation and supply chain costs. Material prices and changes in product mix increased costs slightly by approximately 2%.

As a result, despite a decline in units, the gross margin percentages for the quarter and the half were consistent with 2008.

Selling, General and Administrative Expenses

As shown in the table below, overall SG&A expense decreased by \$21.0 million or 17% on a year-to-date basis in 2009 as compared with 2008. SG&A expense declined \$13.3 million or 22% in the second quarter of 2009 compared with 2008.

On a year-to-date basis, selling and sales support decreased \$9.8 million and general and administrative expenses decreased \$4.6 million. Expenses declined in salaries, commissions and bonuses, related fringe benefits, travel costs, and outsourced service costs primarily as a result of our workforce reduction and other cost reduction initiatives taken late in 2008 and early 2009. Additionally, general and administrative expenses were also lower due to a decrease in healthcare costs which were offset slightly by an increase in the amount of Company match in the 401(k) plan related to the qualified pension plan modifications in 2008. Selling and sales support expense also benefited in the second quarter of 2009 from lower incentive compensation.

On a year-to-date basis, pension amortization decreased \$2.2 million resulting from our 2008 plan modifications that lowered the amount of our unamortized actuarial losses to be recognized in 2009 and future years. Additionally, other pension and postretirement expenses declined \$3.5 million primarily due to a reduction in pension interest and service costs resulting from freezing the benefits of our qualified and nonqualified pension plans in 2008.

| | <i>13 Weeks Ended</i> | | <i>26 Weeks Ended</i> | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>June 28, 2009</i> | <i>June 29, 2008</i> | <i>June 28, 2009</i> | <i>June 29, 2008</i> |
| Selling and sales support | 26.1 | 31.9 | 53.0 | 62.8 |
| Research and development | 1.2 | 1.4 | 2.4 | 2.6 |
| General and administrative expenses | 17.7 | 19.4 | 33.5 | 38.1 |
| Depreciation | 2.2 | 2.6 | 4.4 | 5.1 |
| Amortization of pension net actuarial losses | 3.5 | 5.2 | 8.2 | 10.4 |
| Other pension and postretirement expenses | (2.5) | 1.0 | (1.5) | 2.0 |
| Total selling, general and administrative expense | \$ 48.2 | \$ 61.5 | \$ 100.0 | \$ 121.0 |

Pension curtailments and settlements

As a result of associates retiring and electing a lump-sum payment of their pension benefit, we recorded non-cash settlement charges of \$19.7 million in the first quarter of 2009 related to our qualified, non-qualified and supplemental executive retirement plans. A pension settlement charge is recorded when the total lump sum payments for a year exceed total service and interest costs recognized for that year. The settlement charge recognizes a pro-rata portion of the unrecognized actuarial losses at the date of the settlement.

As part of recording the settlement, we remeasured our pension obligations and plan assets under these plans as of March 1, 2009, the settlement date. The remeasurement resulted in an actuarial gain of \$52.8 due to a change in the discount rate used to measure the benefit obligations from 5.75% at December 28, 2008 to 7.0% at March 1, 2009. The change in discount rate is primarily the result of increases in long-term interest rates during the period. Additionally, we updated the fair value of our plan assets and recognized a net actuarial loss of \$28.1 due to the actual rate of investment return on our qualified plan being less than the expected rate of return. As a result, we realized a net actuarial gain of \$24.7 million which will be amortized into income in future years. This gain reduced our pension liabilities by \$24.7, decreased our deferred tax assets by \$9.8 million, and reduced accumulated comprehensive losses by \$14.9 million.

Additional lump-sum payments of approximately \$1.4 million are scheduled to be paid in the third quarter of 2009 in our nonqualified and supplemental executive retirement plans, which will require us to record additional settlement charges in that period. However, since the charge is proportional to the amount of the obligation settled, we do not expect the amount to be material.

In 2008, the Company modified its qualified and nonqualified defined benefit pension plans for employees still accruing benefits under the plans. Effective June 30, 2008, these participants ceased accruing pension benefits and the final pension benefit amount will be based on pay and service through June 29, 2008. As a result, we recorded a curtailment gain of \$0.7 million in the second quarter of 2008.

Restructuring and Other Exit Costs

The Company has undertaken cost reduction initiatives and restructuring actions in 2008 as part of ongoing efforts to improve efficiencies, reduce cost, and maintain a strong financial condition. Restructuring and other exit costs of \$0.2 million for the first half of 2009 primarily relate to \$0.7 for costs associated with the planned closing of facilities that are required to be expensed as incurred and a reversal of \$0.5 for lower than expected involuntary termination costs.

Our restructuring and cost reduction activities include production facility consolidations, sales reorganization, and general reductions in headcount. Under our new operating model, the majority of our manufacturing, printing, warehousing, and distribution activities are managed under a shared-services model and are therefore not specific to a particular segment. Additionally, we still maintain certain other corporate functions that also are not attributable to a specific segment. As a result, none of our restructuring or cost reduction activities are reported under any segment, and are all attributable to corporate and other shared services.

2008

During 2008, we initiated a plan to close several print centers and integrate certain other print centers into our distribution warehouses to improve efficiency and reduce cost. The last of these actions was completed during the first quarter of 2009. We expected to realize approximately \$3.0 million in savings from these actions. Based upon

the reduction in costs realized during the first half of 2009, we expect to realize substantially all of our projected savings.

Also during 2008, we began implementing a plan to redesign our client support infrastructure to more of a centralized model. We have been transitioning customer transactional and administrative functions from our field sales offices to one of three client support centers. The overall benefit of the change is an optimized client support model along with significant annualized cost savings. As of the end of the quarter, we had transitioned all of our field sales offices; however, we still have some customer accounts that have not been completely transitioned. We expect to complete the transition on these accounts by the end of September 2009. We originally expected these actions to generate approximately \$5.6 million annually in compensation and related cost savings to be reflected in selling, general, and administrative expenses. We now expect the annual savings rate to be approximately \$4.6 million after re-investing a portion of the savings into our client satisfaction operations. As a result of the extended implementation time, we expect to realize the full effect of these savings by the end of 2009. We expected to have involuntary termination costs of \$1.5 million; however, as a result of the changes to the plan, we reversed approximately \$0.4 million of these costs in the second quarter of 2009.

Pre-tax components of 2008 restructuring and other exit costs consist of the following:

| | <i>Total Expected Costs</i> | <i>Total Q2 2009 Expense</i> | <i>Cumulative- To-Date Expense</i> |
|-------------------------------|-------------------------------------|--------------------------------------|--|
| Involuntary termination costs | \$ 3.8 | \$ (0.4) | \$ 3.8 |
| Contract termination costs | 1.5 | - | 1.2 |
| Other associated exit costs | 0.8 | - | 0.8 |
| Total | \$ 6.1 | \$ (0.4) | \$ 5.8 |

A summary of the 2008 restructuring accrual activity is as follows:

| | <i>Balance 2008</i> | <i>Charged to Accrual</i> | <i>Reversed in 2009</i> | <i>Incurred in 2009</i> | <i>Balance 2009</i> |
|-------------------------------|-------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------|
| Involuntary termination costs | \$ 3.2 | \$ - | \$ (0.5) | \$ (2.0) | \$ 0.7 |
| Contract termination costs | 0.5 | 0.3 | - | (0.4) | 0.4 |
| Total | \$ 3.7 | \$ 0.3 | \$ (0.5) | \$ (2.4) | \$ 1.1 |

Taxes

The effective tax rate was 2.3% lower in the second quarter of 2009 as compared to 2008 primarily as a result of permanent differences related to the cash surrender value of life insurance policies. Additionally, there were permanent differences related to share-based compensation awards that increased the effective rate, but these were offset by a decrease in the amount of our meals and entertainment temporary differences. The effective tax rate was 3.7% lower for the first half of 2009 as compared to 2008 as a result of permanent differences related to share-based compensation awards and a decrease in the amount of our meals and entertainment temporary differences.

Segment Operating Results

Production costs of our manufacturing and supply chain shared-services functions are accumulated on a customer basis and reported in the applicable Business Unit's cost of sales. Our Business Units incur a portion of selling, general and administrative expense directly. In the second quarter of 2009, we revised our methods of allocating certain SG&A expenses. Each Business Unit also receives an allocation of SG&A expense as follows:

-

Each Business Unit has its own sales regions. Selling expense incurred by each sales region is allocated to other Business Units based on the percentage of revenue generated for the other Business Unit. Expense associated with our client satisfaction function previously was allocated to Business Units in proportion to their share of consolidated

revenue. We now use an activity-based method of allocating this expense.

-

Finance, technology, and other corporate general and administrative expenses previously were allocated based on the Business Unit's budgeted revenue as a percentage of budgeted consolidated revenue. Expense is now allocated based on the Business Unit's actual revenue as a percentage of actual consolidated revenue.

-

General and administrative expense of our remaining shared-services is allocated based on a percentage of actual revenue.

Segment information for the first quarter of 2009 was revised due to the changes in our allocation methods. Additionally, we reclassified a few customers between markets to better reflect the nature of the sales.

The following table presents our segment results for the 13-week periods ended March 29, 2009 and March 30, 2008 as originally reported and as revised for these changes.

| | <i>As originally reported</i> | | <i>As revised</i> | |
|--------------------------------|-------------------------------|-------------|----------------------|-------------|
| | First Quarter | | First Quarter | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | | | | |
| Commercial | \$ 97.5 | \$ 117.4 | \$ 92.4 | \$ 112.3 |
| Healthcare | 62.9 | 68.2 | 68.4 | 73.4 |
| Industrial | 14.2 | 21.6 | 13.8 | 21.5 |
| Consolidated Revenue | \$ 174.6 | \$ 207.2 | \$ 174.6 | \$ 207.2 |
| Gross Margin | | | | |
| Commercial | \$ 27.7 | \$ 32.5 | \$ 26.6 | \$ 31.5 |
| Healthcare | 22.8 | 25.9 | 24.0 | 27.0 |
| Industrial | 3.8 | 6.1 | 3.7 | 6.0 |
| Total Segments (1) | \$ 54.3 | \$ 64.5 | \$ 54.3 | \$ 64.5 |
| Operating Income (Loss) | | | | |
| Commercial | \$ 1.4 | \$ 2.3 | \$ 2.3 | \$ 3.1 |
| Healthcare | 6.5 | 7.4 | 5.5 | 6.8 |
| Industrial | (0.9) | 0.3 | (0.8) | 0.1 |
| Total Segments (1) | \$ 7.0 | \$ 10.0 | \$ 7.0 | \$ 10.0 |

The following table presents Revenue, Gross Margin, and Operating Income (Loss) for each of our reportable segments for the 13 week and 26 week periods ended June 28, 2009 and June 29, 2008. Segment information for 2008 has been revised from previously reported information to reflect the current presentation.

| | <i>13 Weeks Ended</i> | | | <i>26 Weeks Ended</i> | | |
|----------------|-----------------------|-----------------|--------------|-----------------------|-----------------|--------------|
| | <i>June 28,</i> | <i>June 29,</i> | <i>% Chg</i> | <i>June 28,</i> | <i>June 29,</i> | <i>% Chg</i> |
| | <i>2009</i> | <i>2008</i> | | <i>2009</i> | <i>2008</i> | |
| Revenue | | | | | | |

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| | | | | | | |
|----------------------|----------|----------|--------|----------|----------|--------|
| Commercial | \$ 88.6 | \$ 107.6 | -18% | \$ 181.0 | \$ 219.9 | -18% |
| Healthcare | 66.2 | 70.0 | -5% | 134.6 | 143.4 | -6% |
| Industrial | 16.2 | 21.2 | -24% | 30.0 | 42.7 | -30% |
| Consolidated Revenue | \$ 171.0 | \$ 198.8 | -14.0% | \$ 345.6 | \$ 406.0 | -14.9% |

| | % Rev | | % Rev | | % Rev | | % Rev |
|---------------------|---------------|---------------|----------------|----------------|-------|--|-------|
| Gross Margin | | | | | | | |
| Commercial | \$ 24.7 27.9% | \$ 32.3 30.0% | \$ 51.3 28.3% | \$ 63.8 29.0% | | | |
| Healthcare | 24.2 36.6% | 24.8 35.4% | 48.2 35.8% | 51.8 36.1% | | | |
| Industrial | 4.5 27.8% | 6.6 31.1% | 8.2 27.3% | 12.6 29.5% | | | |
| Total Segments (1) | \$ 53.4 31.2% | \$ 63.7 32.0% | \$ 107.7 31.2% | \$ 128.2 31.6% | | | |

Operating Income (Loss)

| | | | | |
|--------------------|-------------|-------------|--------------|--------------|
| Commercial | \$ 1.5 1.7% | \$ 2.3 2.1% | \$ 3.8 2.1% | \$ 5.4 2.5% |
| Healthcare | 7.1 10.7% | 4.0 5.7% | 12.6 9.4% | 10.8 7.5% |
| Industrial | 0.3 1.9% | 0.6 2.8% | (0.6) -2.0% | 0.7 1.6% |
| Total Segments (1) | \$ 8.9 5.2% | \$ 6.9 3.5% | \$ 15.8 4.6% | \$ 16.9 4.2% |

(1) Segment gross margin excludes LIFO adjustments that are included in consolidated gross margin in the Consolidated Statements of Income and Comprehensive Income. A reconciliation of operating income per segment to consolidated income from operations is provided in Note 11-Segment Reporting of the Notes to Financial Statements.

Commercial

Commercial segment revenue declined \$38.9 million or 18% in the first half of 2009 compared to 2008. Overall, we estimate that economic conditions resulted in approximately 67% of the decline in revenue, as we saw an increase in this rate in the second quarter of 2009 due to the nature of the products sold and factors driving demand for them.

Products sold in this segment are heavily weighted toward customer spending on training, advertising, payroll services, etc. Customer spending in these areas has steadily declined in response to the recession, high unemployment rates, and continued focus on cost reduction.

Revenue declined across all of our primary customer groups within this segment. Declines were most prominent with our financial services customers, which accounted for 47% of the overall revenue decline. More than half of this decline resulted from bank consolidations, reduced demand, and pricing concessions due to weak economic conditions. Financial customers aggressively sought price reductions and also in-sourced products as a means for eliminating costs. Additionally, revenue with financial customers declined approximately 18% as a result of the continued adoption of technology.

We also experienced revenue declines with our transportation, services, and government customers. Declines with our transportation customers primarily resulted from customer divestitures as some customers discontinued business activities and consolidated operations to reduce costs. Revenues with our service customers declined primarily as a result of pricing pressures. Declines with our government customers primarily related to reduced demand due to the weak economic conditions.

The following table summarizes the estimated changes in overall revenue due to units and price for both the second quarter and the first half of 2009. Changes in product mix did not materially contribute to the change in revenue.

| | <i>% of Revenue Change</i> | |
|--------------|----------------------------|---------------------|
| | <i>Quarter</i> | <i>Year-to-Date</i> |
| Units | -18% | -19% |
| Price | 0% | 1% |
| | -18% | -18% |

Units declined at a lower rate in the second quarter of 2009 as compared to year-to-date as a result of increases in our customer base and increased sales in some growth-targeted products. Pricing increased at a lower rate in the second quarter of 2009 reflecting the increased pressure on pricing due to the weak economic conditions.

Cost of sales declined \$26.4 million, or 17% during the first half of 2009 compared to 2008. Approximately 15% of the decline resulted from decreased units. Additionally, production costs, primarily consisting of compensation and supply chain costs, were reduced by 3% as part of our workforce reductions and other cost reduction initiatives taken in 2008. These decreases were offset by an approximate 1% increase in paper costs. As a result, the gross margin percentages declined on both the quarter and year-to-date basis.

On a year-to-date basis, operating income was \$3.8 million, compared to \$5.4 million in 2008. The decline of \$1.6 million is a result of reduced gross margin of \$12.5 million offset by SG&A savings of approximately \$10.9 million. The SG&A savings were realized primarily in compensation costs as part of our workforce reduction and other cost reduction initiatives completed in late 2008 and early 2009, as well as a reduction in total SG&A expenses, which resulted in a lower allocation to the segment.

Healthcare

Revenue in our Healthcare segment declined 6% or \$8.8 million in the first half of 2009 compared to 2008. The largest revenue declines were in our traditional print products such as clinical documents and checks which were offset in part by increases in our billing statements, wristbands, and prescription pads. We estimate that approximately 40% of the total revenue decline was attributable to the economic conditions as our customers continued to focus on cost containment and sought pricing concessions, reduced order levels, or delayed re-orders. The proliferation of technology also continued to negatively affect revenue and accounted for approximately 28% of the overall revenue decline as customers were able to utilize technology to produce or eliminate the need for some of the products we provide. Both of these factors contributed to unit declines and reductions in pricing.

The following table details the estimated changes in revenue due to units and price for both the second quarter and the first half of 2009. Changes in product mix did not materially contribute to the change in revenue.

| | <i>% of Revenue Change</i> | |
|--------------|----------------------------|---------------------|
| | <i>Quarter</i> | <i>Year-to-Date</i> |
| Units | -7% | -8% |
| Price | 2% | 2% |
| | -5% | -6% |

We continued to see our existing customers restrict spending and delay capital projects which negatively impacted units. However, the rate of unit declines in the second quarter was slightly lower than in the first quarter of 2009 as a result of increases in our customer base, increased sales within our existing customer base for certain growth-targeted products, and higher customer retention rates. We attribute these positive trends to a more focused sales effort as a result of our vertical market strategy. The increase in pricing reflects an increase in prices for the pass-through of material costs which were partially offset by pricing concessions due to weak economic conditions.

Cost of sales declined \$5.2 million or 6% as compared to the first half of 2008. Unit declines and lower production expenses realized from our cost reduction initiatives reduced costs by 5% and 3%, respectively. These declines were offset by increased paper costs of approximately 2%. The gross margin percentage remained relatively consistent in the first half of 2009 compared to 2008 due in large part to success in our cost containment initiatives.

Operating income was up \$1.8 million for the first half of 2009 compared with 2008, reflecting the lower gross margin of \$3.6 million, which was more than offset by reduced selling and administrative expenses of approximately \$5.4 million. The SG&A reductions resulted from cost reduction actions taken in 2008 and 2009 and a decrease in total SG&A expenses, which resulted in a lower allocation to the segment. Operating profit as a percentage of revenue for the second quarter of 2009 was higher than the year over year increase as a result of improved gross margin during the quarter.

Industrial

Industrial segment revenue declined \$12.7 million or 30% in the first half of 2009 compared to 2008. Overall, this segment continues to be negatively affected by the downturn in the economy. Primary customers are manufacturers of products directly affected by discretionary spending levels of consumers and products supporting the housing industry. As a result, half of the revenue decline was in our label and manual products. The remaining decline was primarily in our traditional print and document management products. However, despite the weak economic conditions, we have increased our customer base during the first half of 2009. We expect this to result in a positive revenue trend long-term once consumer spending levels return to normal levels and the housing market stabilizes.

The weak economic conditions have continued to affect units, as well as price. The table below describes the estimated changes in revenue attributable to units and price for both the second quarter and the first half of 2009.

| | <i>% of Revenue Change</i> | |
|--------------|----------------------------|---------------------|
| | <i>Quarter</i> | <i>Year-to-Date</i> |
| Units | -26% | -33% |
| Price | 2% | 3% |
| | -24% | -30% |

During the second quarter of 2009, we have seen a reduction in the number and length of our customer's temporary plant shutdowns. This trend resulted in a minor increase in order levels in the second quarter, which helped to slightly lessen the overall unit decline for the first half. Pricing increased at a lower rate in the second quarter due to a decreased level in price increases related to the pass-through of material costs.

Costs of sales declined \$8.3 million or 27% in the first half of 2009 compared to 2008. Lower unit sales reduced costs approximately 29%. Costs increased approximately 2% due to material prices and 1% due to changes in product mix.

We continued to realize savings from our cost initiatives taken in 2008 of approximately 4%; however, the savings were partially offset by increased start-up costs associated with our new Dayton label plant of approximately 3%. As a result, the gross margin percentages declined for the second quarter and year-to-date.

Operating income was down \$1.3 million from an operating profit of \$0.7 million in the first half of 2008 to an operating loss of \$0.6 million in 2009. The decrease in gross margin contributed to \$4.4 million of the decline which was offset by decreased SG&A expenses of approximately \$3.1 million, primarily related to reduced selling and administrative expenses as a result of our cost reduction actions taken in 2008 and 2009 and a decrease in total SG&A expenses, which resulted in a lower allocation to the segment.

LIQUIDITY AND CAPITAL RESOURCES

Our discussion will provide information on cash flow, capital structure, and our significant contractual obligations.

This discussion also presents financial measures that are considered non-GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows where amounts are either excluded or included not in accordance with generally accepted accounting principles. The presentation of non-GAAP information is not meant to be considered in isolation or as a substitute for results prepared in accordance with accounting principles generally accepted in the United States. In particular, we will segregate and highlight cash flows related to restructuring and contributions to our qualified pension plan, both of which are carefully monitored by management and have a significant and variable impact on cash flow. In addition, because our outstanding debt is borrowed under a revolving credit agreement which currently permits us to borrow and repay at will up to a balance of \$100 million (subject to limitations related to receivable balances and letters of credit), we take the measure of cash flow performance prior to debt borrowing or repayment. In effect, we evaluate cash flow as the change in net debt (total debt less cash and cash equivalents).

The major elements of the Statements of Cash Flows are summarized below:

| | <i>26 Weeks Ended</i> | |
|---|-----------------------|-----------------|
| | <i>June 28,</i> | <i>June 29,</i> |
| CASH INFLOW (OUTFLOW) | 2009 | 2008 |
| Net income plus non-cash items | \$ 27.3 | \$ 33.6 |
| Working capital | 10.6 | 21.0 |
| Restructuring payments | (2.9) | (0.4) |
| Contributions to qualified pension plan | (14.5) | (11.0) |
| Other (1) | (7.0) | (2.9) |
| Net cash provided by operating activities | 13.5 | 40.3 |
| Capital expenditures | (5.0) | (6.6) |
| Net cash used in investing activities | (5.0) | (6.6) |
| Net change in long-term debt | (0.5) | (17.0) |
| Dividends paid | (8.1) | (13.4) |
| Other | - | 0.1 |
| Net cash used in financing activities | (8.6) | (30.3) |
| Net cash flow | \$ (0.1) | \$ 3.4 |
| Memo: | | |
| Add back debt paid (borrowed) | 0.5 | 17.0 |
| Cash flow before change in debt | \$ 0.4 | \$ 20.4 |

(1) Includes deferred compensation and non-qualified pension payments and changes in other non-current assets and liabilities

Operating Activities

Cash provided by operations was \$26.8 million lower in the first half of 2009 compared with the same period of 2008. This decrease was primarily driven by reduced operating profit and higher working capital requirements.

Restructuring payments were also higher in 2009 compared to 2008 as we progressed with the plans initiated in late 2008.

We also contributed \$14.5 million to our qualified defined benefit pension plan in the first half of 2009 compared to \$11.0 million in 2008. Final regulations under the Pension Protection Act of 2006 regarding the calculations of our minimum funding requirement have not been released, therefore our required mandatory pension funding requirement for 2009 is not known at this time. Based upon preliminary estimates, we expect to contribute approximately \$25 million for 2009, which is more than our current estimates of the required funding.

Additionally, we experienced higher payouts under our unfunded pension plans due to a large number of retirements that occurred during the first half of 2009. We expect to continue to see higher payouts as compared to previous periods as more employees who have elected to retire will be receiving lump sum payments in future months. Although, we expect these amounts to be lower than those reported in the first half of 2009.

Investing Activities

Capital expenditures totaled \$5.0 million thus far in 2009 and are expected to be in the range of \$10 to \$13 million for the year. We expect to continue to scrutinize capital projects and limit spending to projects required for operations and those with higher returns on invested capital.

Financing Activities

On a year-to-date basis, we decreased borrowings under our revolving credit facility by \$0.5 million, primarily as a result of increases in available cash from higher operating profit and lower dividends in the second quarter.

Dividend payments to shareholders were lower in the second quarter of 2009 compared to 2008, as our Board of Directors in February of this year elected to reduce the quarterly dividend from \$0.23 to \$0.05 per share for the second quarter. The amount of dividend payments in subsequent quarters will be determined on a quarter by quarter basis.

Capital Structure

| | <i>June 28,</i> | | <i>December 28,</i> | |
|--------------------------------------|------------------------|----|----------------------------|----------------------|
| | <i>2009</i> | | <i>2008</i> | <i>Change</i> |
| Total Debt | \$ | \$ | 34.0 | \$ (0.6) |
| | 33.4 | | | |
| Less Cash and Short-term Investments | (0.2) | | (0.3) | 0.1 |
| Net Debt | 33.2 | | 33.7 | (0.5) |
| Equity | 52.8 | | 35.0 | 17.8 |
| Total | \$ | \$ | 68.7 | \$ 17.3 |
| | 86.0 | | | |
| <i>Net Debt:Total Capital</i> | 39% | | 49% | |

Our net debt decreased \$0.5 million in the first half of 2009, reflecting the \$0.6 million decrease in borrowings and a \$0.1 million increase in cash reserves. Net debt represented 39% of total capital at quarter end, compared to 49% at the beginning of the year. At quarter end, we had \$36 million available under our revolving credit facility, compared to \$49.8 million at the beginning of the year. Our available credit declined due to the decrease in our accounts receivable balances, as our level of borrowing is subject to limitations based upon these balances.

We believe that the combination of our internally-generated funds, available cash reserves, and our existing credit facility are sufficient to fund our operations, capital expenditures, and investments in growth initiatives over the next year. We believe our credit agreements reside with sound financial institutions, and we have not experienced and do not anticipate any restrictions on our ability to utilize the facility per our agreement.

Our existing credit facility expires in May 2010; therefore, the \$33.8 million of debt is classified as a current liability in the accompanying consolidated balance sheet. We anticipate renegotiating the credit facility later in 2009 or early 2010. The market and availability of asset-backed loans remains strong despite the recent turmoil within the credit

markets; however, the costs associated with loans have increased. As a result, we estimate that costs associated with any new agreement could be significantly higher than our existing agreement, which at current debt levels could result in increased interest expense of \$1.2 to \$2.1 million annually.

Contractual Obligations

There have been no material changes in our contractual obligations since year-end 2008 outside the normal course of business.

Our near-term cash requirements are primarily related to funding our operations, capital expenditures, and pension.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to interest rate risk on its borrowing under a revolving credit facility. The Company is also exposed to market risk from changes in the cost of paper, the principal raw material used in the production of business forms. There have been no material changes in the Company's exposure to these items since the Company's disclosure in Item 7A, Part II of our Annual Report.

ITEM 4 - CONTROLS AND PROCEDURES

Controls Evaluation

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting (Disclosure Controls) as of June 28, 2009. The evaluation was carried out under the supervision, and with the participation, of our management including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our Securities Exchange Act reports, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

Limitations on the Effectiveness of Disclosure Controls

Our Company's management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Scope of Evaluation

Our evaluation of Disclosure Controls included a review of their objectives, design, and effectiveness, including their effect on the information generated for use in this Quarterly Report on Form 10-Q. This evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of our Disclosure Controls can be reported upon in our quarterly reports on Form 10-Q.

Conclusion

Based on that evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report on Form 10 Q, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed,

summarized, and reported within the time periods specified by the SEC and that material information relating to The Standard Register Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

Changes in Internal Control

During the second quarter of fiscal 2009, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to material weaknesses in such controls.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material legal proceedings within the reporting period that the Company has been involved with beyond those conducted in a normal course of business.

Item 1A - RISK FACTORS

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended December 28, 2008 in response to Item 1A to Part I of Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following issues were submitted to a vote of security holders at the Company's Annual Meeting of Shareholders held April 23, 2009.

ISSUE ONE: DIRECTOR NOMINEE ELECTION RESULTS

The following were elected to the Company's Board of Directors to hold office for the ensuing year:

| <u>NOMINEE</u> | <u>IN FAVOR</u> | <u>AGAINST</u> | <u>WITHHELD</u> |
|-----------------------|-----------------|----------------|-----------------|
| David P. Bailis | 45,345,962 | 650,461 | 2,007,163 |
| Roy W. Begley, J | 45,653,650 | 342,773 | 2,007,163 |
| F. David Clarke, III | 45,697,462 | 298,961 | 2,007,163 |
| Michael E. Kohlsdorf | 45,701,585 | 294,838 | 2,007,163 |
| R. Eric McCarthy | 45,637,735 | 358,688 | 2,007,163 |
| Joseph P. Morgan, Jr. | 45,510,378 | 486,045 | 2,007,163 |
| John J. Schiff, Jr. | 45,451,850 | 544,573 | 2,007,163 |
| John Q. Sherman, II | 45,249,091 | 747,332 | 2,007,163 |

ISSUE TWO: RATIFY THE APPOINTMENT OF BATTELLE & BATTELLE, LLP AS INDEPENDENT AUDITORS

| <u>IN FAVOR</u> | <u>AGAINST</u> | <u>ABSTAINED</u> | <u>WITHHELD</u> |
|-----------------|----------------|------------------|-----------------|
| 45,841,795 | 135,078 | 45,030 | 1,981,683 |

ISSUE THREE: APPROVE THE AMENDED AND RESTATED 2002 EQUITY INCENTIVE PLAN

| <u>IN FAVOR</u> | <u>AGAINST</u> | <u>ABSTAINED</u> | <u>WITHHELD</u> |
|-----------------|----------------|------------------|-----------------|
| 42,045,957 | 562,591 | 3,413,355 | 1,981,683 |

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit # Description

2

Plan of acquisition, reorganization, arrangement,
liquidation or succession

Not applicable

3

Articles of incorporation and bylaws

Not applicable

4

Instruments defining the rights of security holders,
including indentures

Not applicable

10

Material contracts

Not applicable

11

Statement re: computation of per share earnings

Not applicable

15

Letter re: unaudited interim financial information

Not applicable

18

Letter re: change in accounting principles

Not applicable

19

Report furnished to security holders

Not applicable

22

Published reports regarding matters submitted

to vote of security holders

Not applicable

23.1

Consent of Independent Registered Public Accounting Firm

Included

24

Power of attorney

Not applicable

31.1

Certification of Chief Executive Officer pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

Included

31.2

Certification of Chief Financial Officer pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

Included

32

Certifications pursuant to 18 U.S.C Section 1350, as adopted

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Included

1.1

Report of Independent Registered Public Accounting Firm

Included

SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 29, 2009

**THE STANDARD REGISTER COMPANY
(REGISTRANT)**

/S/ ROBERT M. GINNAN

By: Robert M. Ginnan, Vice President, Treasurer and

Chief Financial Officer

(On behalf of the Registrant and as Chief Accounting Officer)